

UNITED STATES DEPARTMENT OF AGRICULTURE



PROSPECTS IN THE GLOBAL BREAKFAST CEREAL MARKET

COMMODITY AND MARKETING PROGRAMS – PROCESSED PRODUCTS DIVISION
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EXECUTIVE SUMMARY

Global trade in breakfast cereals was \$1.9 billion in 2004, an increase of almost 12 percent above 2003's \$1.7 billion level and nearly 73 percent above 1998's \$1.1 billion. Following Canada and France, the United States is the third largest import market valued at \$134 million (up over 30 percent during the 1998 – 2004 period).

The top two breakfast cereal markets for U.S. exports in 2004 were Canada (\$180 million) and Mexico (\$21 million). Canada and Mexico absorbed the bulk (87 percent) of U.S. exports. Smaller secondary markets include Israel, Haiti, and Hong Kong. Foreign Agricultural Service overseas offices and trade sources report that outside Canada and Mexico successful market access tends to be limited by distance to market, tariffs, and non-tariff barriers, in addition to the often strong market presence of large branded companies. Total U.S. exports were \$227 million in 2004, up by more than \$82 million or over 56 percent compared to 1998 levels.

Top suppliers in the global market were in 2004 the United Kingdom (\$466 million), France (\$306 million), and Germany (\$266 million).

While exports remain dominated by the larger breakfast cereal manufacturers, traders report growing interest for U.S. specialty cereals (i.e., organics, health-oriented, and children's cereals). Industry sources indicate that consumers are slowly becoming more aware of the variety of U.S. breakfast cereals. U.S. breakfast cereal exporters should see a small but steady increase in consumer demand for their products over the next several years due to the following factors:

- Rising consumer income and sophistication
- Constant exposure to U.S. culture
- Increasing acceptance of a wide variety of specialty breakfast cereals

Though breakfast cereal consumption has lost ground to alternative breakfast foods, such as cereal bars and or other easy-to-eat foods manufactured for the busy eater, cereals still remain an important breakfast food for many consumers worldwide.

PROSPECTS IN THE GLOBAL BREAKFAST CEREAL MARKET

INTRODUCTIONⁱ

The global trade in breakfast cereal was \$1.9 billion in 2004. The market has experienced a respectable growth rate of over 8 percent throughout the 1998-2004 period.

Breakfast cereals are some of the most dynamic foods in the processed food industry. Cereals, both cold and hot, are evolving along with cultural and demographic factors.

What began as a simple farm product a century ago has evolved into a multi-billion dollar industry. Breakfast cereals, first made available to the general public in 1906, were an early convenience food for busy Americans needing to save time at the first meal of the day. Today product development, new formulations, and increased marketing expenditures are important elements in breakfast cereal's progress.

Though breakfast cereal demand has grown, time-pressured lifestyle of people worldwide is contributing to a slower volume growth of breakfast cereal relative to other breakfast convenience foods like cereal bars. Trade sources indicate that accelerated lifestyles have put breakfast cereals under pressure to become even more convenient.

PRODUCT SEGMENTATION

Breakfast cereals are a well-established grocery category in most countries. Developed countries have adopted consumption patterns similar to those in the United States.

Consumers in the United States, as well as potential buyers overseas, will identify breakfast cereals distributed in the U.S. market based on the following classification.

- **Ready-to-Eat (RTE) Cold Breakfast Cereals:** This segment includes staples (e.g. corn flakes), children's cereals, and health products (e.g. *muesli*).
- **Hot Cereals:** This segment includes traditional porridge and the newer "instant" varieties.

ⁱ This report was compiled by Mariano J. Beillard, Processed Products Division of FAS. Additional information on individual markets (e.g. retail sector, labeling requirements, tariff information, and importer lists) is available from FAS offices overseas, or from the Processed Products Division (PPD): Telephone: (202) 720-6343, Internet: <http://www.fas.usda.gov/agx/AGX.html>.

Disclaimer: Statistics herein are not official USDA statistics unless otherwise specifically noted.

Though consumers worldwide are receptive to U.S. breakfast cereals, a purchase decision is often influenced by exposure to and acceptance of American culture. However, local consumers' preferences for certain textures and flavors also vary from one country to the next. For example, while Americans and most westerners prefer sweet, crunchy breakfast cereals, Chinese consumers will traditionally favor salty, hot breakfast foods.

The two largest product categories within breakfast cereal are staples and children's cereals. Manufacturers looking for growth opportunities are increasingly targeting female consumers and children to generate interest in their products.

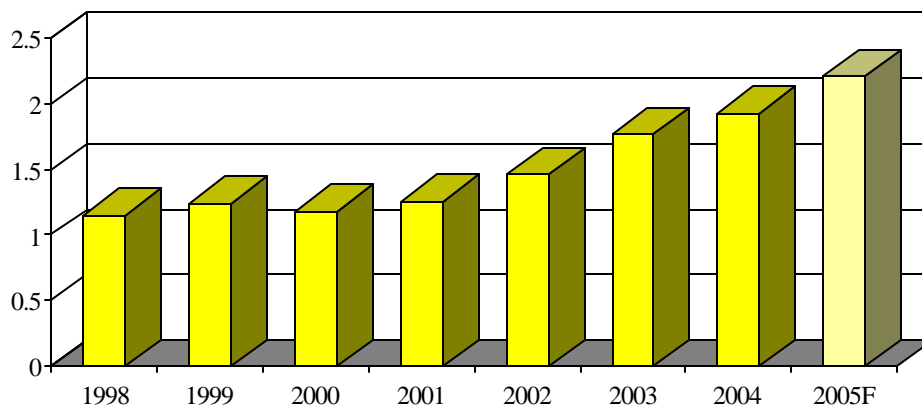
GLOBAL BREAKFAST CEREAL MARKET

The global export market for breakfast cereals was \$1.9 billion in 2004 (graph 1) and is forecasted to reach \$2.2 billion in 2005. Global exports of breakfast cereals have grown by 73 percent in 2004 compared to 1998 levels as consumers, both in the United States and abroad, increasingly demand more organic, health-oriented, and children's cereals.

Indicative of growing demand for breakfast cereals has been the growth of U.S. exports – growing by \$40 million to \$227 million in 2004, up 21 percent compared to 2003 levels. Export growth is occurring as U.S. breakfast cereal manufacturers are licensing their product to local manufacturers or producing it themselves overseas.

- U.S. exports are driven by demand for quality products and brands not manufactured overseas or more price competitive vis-à-vis local manufactures.
- Global growth since 2002 is due largely to rising consumer awareness of health issues and the wholesome nature of breakfast cereals for both adults and children.

GRAPH 1 – GLOBAL BREAKFAST CEREAL TRADE, BY VALUE 1998-2005F
(US\$ BILLIONS)

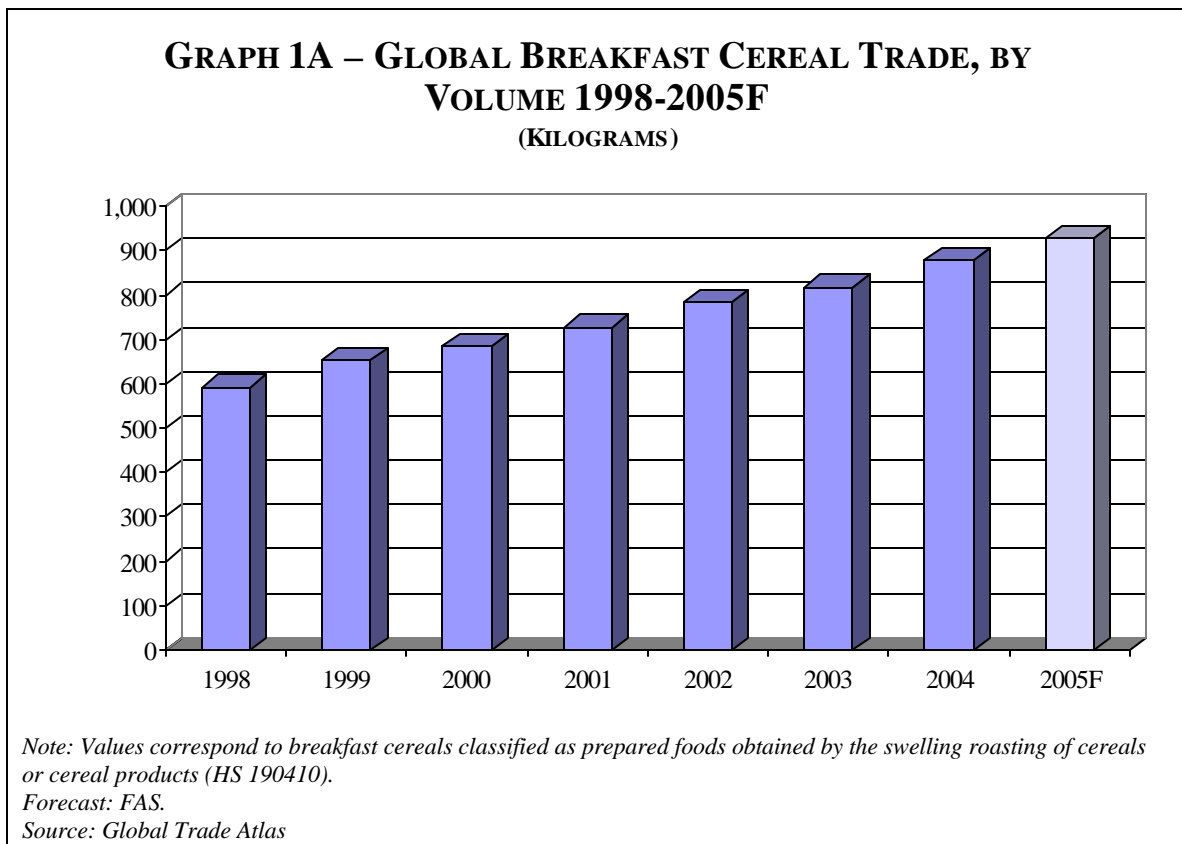


Note: Values correspond to breakfast cereals classified as prepared foods obtained by the swelling roasting of cereals or cereal products (HS 190410).

Forecast: FAS.

Source: Global Trade Atlas.

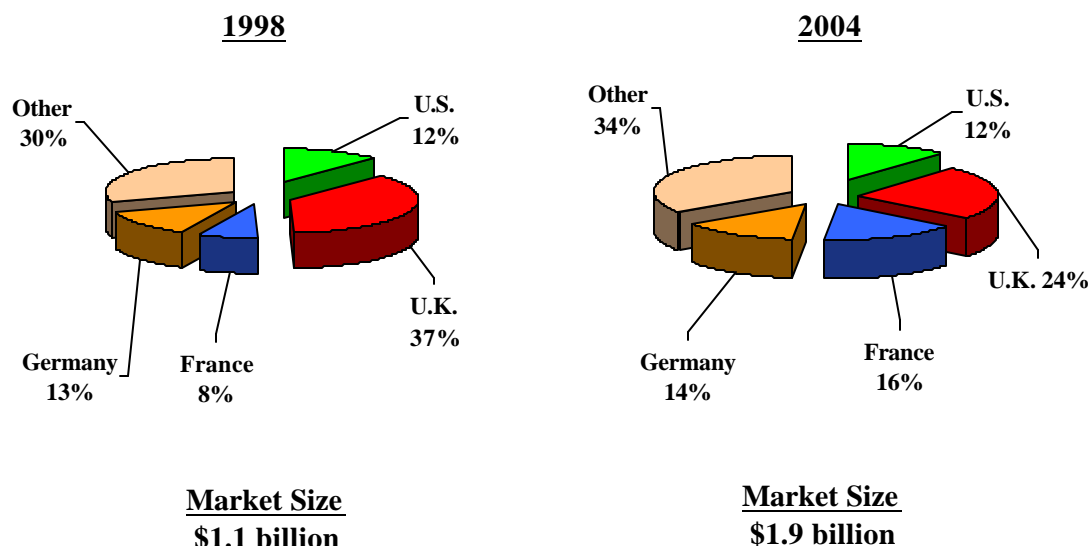
Likewise in terms of volume, the global breakfast cereal trade has mirrored similar growth patterns starting in 2002 that coincide with a rise in global consumer health concerns (graph 1A).



Graph 2 on the following page provides an overview of the global export market for breakfast cereal and indicates that:

- Though U.S. breakfast cereal exports have continued to grow in value terms during the 1998 to 2004 period, increased foreign competition has hampered an expansion of American market share.
- Overseas licensing agreements, the rise of private label products as well as concerns with biotech content for some consumers may impact overall U.S. market share. According to industry sources, private label accounts for over 10 percent of the global market and has been most successful in France, Germany, Spain, and the United Kingdom.

GRAPH 2 – GLOBAL EXPORT MARKET FOR BREAKFAST CEREAL



Note: Percentage figures have been rounded. Not all reporting markets in 2004 reported import/ export data for 1998. Source: Global Trade Atlas.

Demand for U.S. origin breakfast cereals is often subject to factors such as:

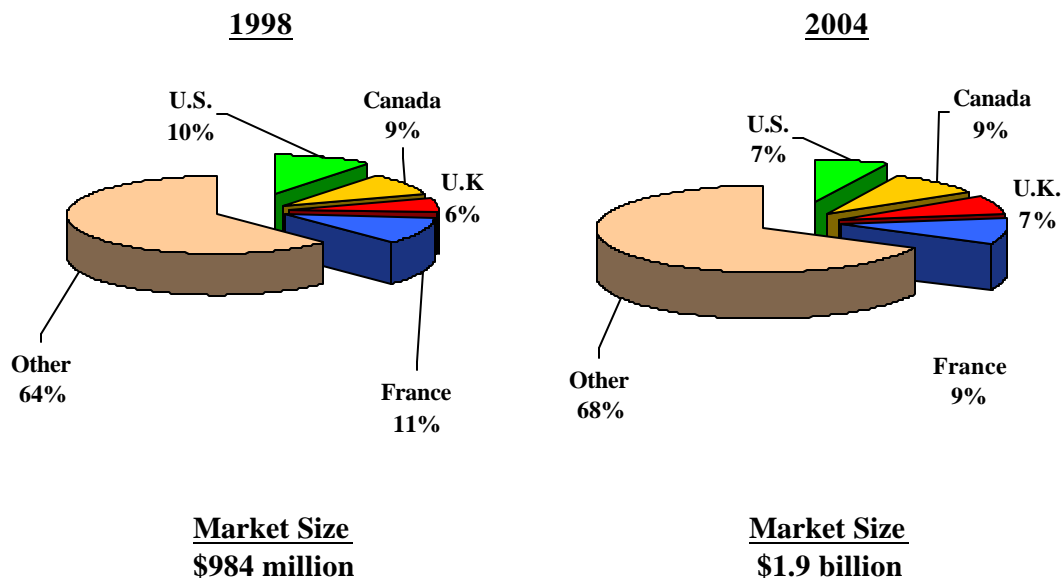
- International currency fluctuations that strengthen or weaken the U.S. dollar and the competitiveness of U.S. products.
- In less affluent markets the relatively high cost of U.S. breakfast cereals, compared to breakfast alternatives (i.e. bread), places U.S. product at times outside the reach of portions of the population.

The international market is becoming more competitive as rival producers take advantage of preferential tariffs or exploit non-tariff issues such as concerns about biotech product content in the EU. Additionally, major U.S. producers are increasingly manufacturing product overseas to cut shipping costs and or bypass tariff barriers that would otherwise put them at a disadvantage with local manufacturers of breakfast cereals.

MAJOR BREAKFAST CEREAL IMPORTING COUNTRIES

The United States is the world's third largest importer of breakfast cereals. In 2004, the import value was \$134 million, an increase of 30 percent from the 1998 figure. The early forecast for imports in 2005 is \$132 million or a drop of approximately \$2 million in imports compared to the preceding year. Accounting for the drop is growing consumer preference for portable breakfast foods (i.e. breakfast cereal bars) that can be consumed on the run.

GRAPH 3 – TOP GLOBAL IMPORT MARKETS FOR BREAKFAST CEREALS



*Note: Percentage figures have been rounded. Not all reporting markets in 2004 reported import/ export data for 1998.
Source: Global Trade Atlas.*

In 2004 Canada and France were the largest and second largest importers of breakfast cereal with imports valued at nearly \$180 million each. Canada, with more than \$178 million worth of imports from the United States alone in 2004, will continue to be an attractive destination for U.S. breakfast cereal exports given demographic and consumption that mirror those found in the United States. In addition, some European markets are concerned about both the biotech content and the fortification of U.S. breakfast cereals. For example, the Danish Veterinary and Food Administration in 2004 banned 12 U.S. origin breakfast products fortified with calcium, vitamin B-6 and folic acid citing that these were dangerously over-enriched and posed a potential health risk.

Following Canada, France, and the United States, the next largest global import markets are the United Kingdom (\$126 million) and Germany (\$114 million). According to trade data from *Global Trade Atlas*, trade with in these countries is skewed (over 80 percent) in favor of other EU partner states.

In the overall breakfast cereals category, which includes both the ready-to-eat cereals and hot cereals (porridges), various industry sources indicate that the largest per capita consumption is found in Ireland and the United Kingdom with 8.3 and 6.7 kilograms, respectively (table 1, following page). Australia (6.6 kilograms) is next and U.S. consumers follow with 4.8 kilograms. Analysts conclude that ready-to-eat breakfast

cereal products make up over 88 percent of sales value with hot cereals (porridges) making up the balance.

TABLE 1: PRODUCTION, SUPPLY, AND DEMAND IN SELECT MARKETS						
COUNTRY	POPULATION (000S)	PRODUCTION ESTIMATES (KG)	IMPORTS (KG)	EXPORTS (KG)	APPARENT CONSUMPTION (KG)	PER CAPITA CONSUMPTION (KG)
IRELAND	3,947	10,345,100	22,837,000	422,000	32,760,100	8.3
UNITED KINGDOM	59,280	500,532,600	39,713,000	141,884,000	398,361,600	6.7
AUSTRALIA	19,890	142,928,055	3,336,805	14,394,160	131,870,700	6.6
UNITED STATES	291,044	1,408,982,389	93,784,590	102,845,339	1,399,921,640	4.8
CZECH REPUBLIC	10,202	38,087,280	6,175,000	2,026,000	42,236,280	4.1
RUSSIA	143,425	446,603,387	5,952,526	2,201,413	450,354,500	3.1
GERMANY	82,551	183,514,310	71,719,000	105,816,000	149,417,310	1.8
FRANCE	59,725	108,292,000	68,936,000	74,501,000	102,727,000	1.7
MEXICO	102,291	126,418,528	15,225,097	17,871,515	123,772,110	1.2
JAPAN	127,210	27,166,927	3,505,571	142,098	30,530,400	0.2
BRAZIL	176,596	29,176,794	143,553	2,830,947	26,489,400	0.1

Note: Calculations are based on year 2003 data. Per capita consumption figures have been rounded.

Source: World Bank, Global Trade Atlas, and Leatherhead Food International.

GLOBAL PRODUCERS AND MARKET DRIVERS

Kellogg (33 percent), *General Mills* (14 percent), *PepsiCo* (10 percent), *Kraft Foods* (8 percent), and *Cereal Partners Worldwide* (9 percent) continue to dominate the global breakfast cereal market. In recent years, the major cereal manufacturers have relied on a combination of strong product innovation within the premium health sector and highly focused product portfolios to drive their commercial growth.

Industry analysts report that *Kellogg* has been particularly successful in identifying and innovating within the major cereal segments (e.g. adult, health and children's cereals). Building on this success *Kellogg*, as well as the other major manufacturers, have succeed in positioning a number of their brands as wholesome snacks right alongside snack bars and fruit snacks while simultaneously marketing adult-oriented sweet-tasting cereals. The major manufacturers are intent on capturing the aging baby boomer market by adding vanilla, French toast, and other flavors to what otherwise would be bland tasting adult cereals.

Analysts concur that the major manufacturers are speculating that niche products within the adult market will insulate them from price competition. Private labels are generally deemed to be less likely to produce knock-offs of the major manufacturers' narrowly targeted niche market cereals. The private label products are also hampered by limited marketing budgets when compared to those of the major manufacturers.

Industry sources report three significant factors influence the international breakfast cereals market:

- Appealing to children
- Increasing promotions and advertisement
- Appeal of *nutraceutical* and organic products

Television and Internet advertising, endorsements, and merchandizing are vital aspects of the children's sweetened breakfast cereal market. This is driving food manufacturers, especially within the Eastern European and Asian markets, to keep abreast of children's social trends by linking their breakfast cereals to the latest toys, sport, popular cartons, movies, and music. Manufacturers are increasingly reaching children and younger consumers through breakfast cereal specific websites where product mascots help to boost awareness of sweet breakfast cereals to young consumers (primarily 5- to 14- year olds who are widely seen as the main target for most breakfast cereals).

The *Kellogg/ Disney* venture that spawned such cereals as *Mickey's Magix*, *Hunny B's*, and *Buzz's Blasts* is an example of how breakfast cereal manufacturers have created cereal products by licensing well-known *Disney* characters.

Industry sources similarly indicate that within the breakfast cereal market a driver of sales is the ability to claim that a brand's cereal (for example, corn flakes) is "new and improved" or that it provides the consumer with some extra benefit, for example being

“heart healthy.” Claims such as these are meant to impact the consumer’s perception about the merits of the product and thus influence the decision-making processes.

The term *nutraceutical* refers to the use of vitamins, minerals, or pharmaceuticals to describe foods that contain supplements believed to provide specific health benefits. The intent behind adding nutrients (i.e. iron, calcium, vitamin B-6, folic acid) and fiber is to fight off certain diseases and improve health (i.e. “heart healthy” products). Many cereal products are often now considered to be more than just a breakfast food and are increasingly viewed many consumers as products that promote good health – for example *Kellogg’s Smart Start* and *General Mills’ Harmony*.

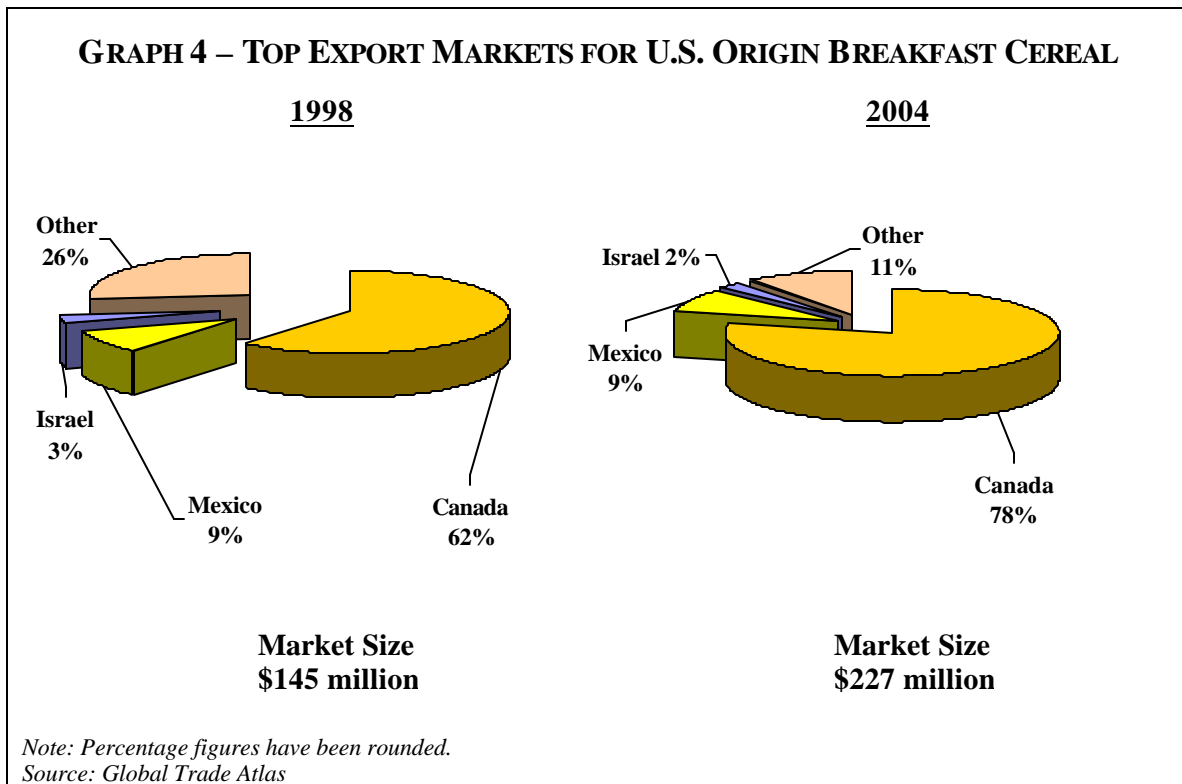
Within the organics realm, large breakfast cereal manufacturers have in recent years taken on an increasing presence. For example, *Kellogg* has purchased *Kashi* and *Worthington* while *General Mills*’ overtook *Small Planet Foods* and its *Cascadian Farms* brand. Simultaneously *General Mills* has also launched its own *Sunrise* organic cereal under its *Big G/ Chex* line.

Analysts report that women and children are promising niche markets for breakfast cereal manufacturers in developed countries. While female consumers are often interested in gender-specific dietary/nutritional needs (i.e., products containing folic acid, calcium, and iron), children are drawn to cereals that have an appealing taste and are fun to eat.

At a time in which consumers in Western Europe and North America are finding themselves both increasingly pressed for time and are concerned about their health, cereal manufactures are launching innovative products to meet such demands. Analysts report that not only are manufacturers looking at improving their processing methods in order to develop better tastes, textures, and shapes for their cereal products, they are also looking to better serve the busy lifestyle of consumers for whom breakfast is either “on-the-go” or skipped altogether. For example, in the United Kingdom and Australia a number of manufacturers have marketed with varying degrees of success a dairy-based drink containing cereal that is drunk directly from the carton.

TOP U.S. BREAKFAST CEREAL EXPORT MARKETS

The top two export destinations for U.S. origin breakfast cereal in 2004 were Canada, worth \$178 million, and Mexico at \$21 million.



Market trends in these markets mirror those of the United States where domestic market profitability in the RTE category in recent years has been linked to targeting key consumer groups (i.e., children, women, and health-conscious consumers).

Table 2 highlights developments in the top two U.S. export destinations during the review period.

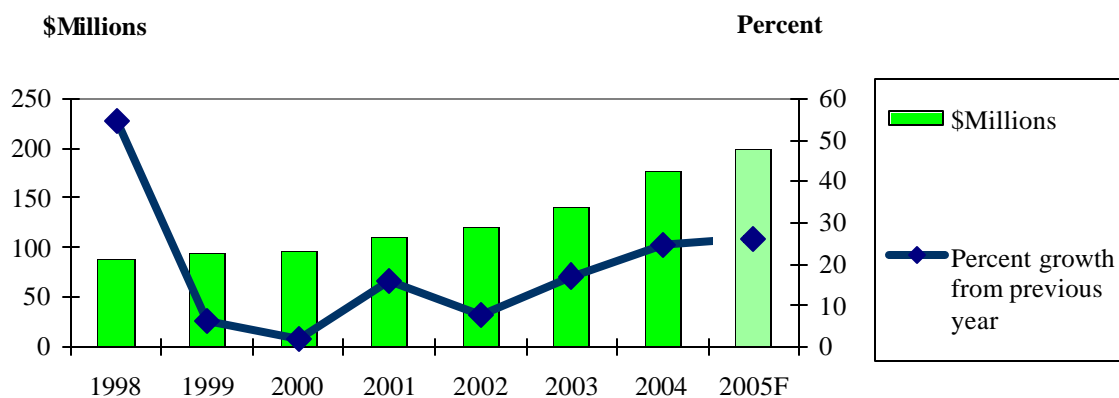
Canada

U.S. exports of breakfast cereal to Canada were \$178 million in 2004, increasing by value 101 percent in 2004 compared to 1998 figures. Graph 5 on below illustrates the upward demand trend and forecasts \$199 million in exports in 2005.

- Geographic and cultural proximity influences this market's demand for U.S. breakfast cereals. Both the United States and Canada share similar sales and marketing practices that have been further deepened due to NAFTA.

- The major difference between the Canadian and the U.S. market is that consumers in the former overwhelmingly (93 percent according to a recent *AC Nielsen Homescan* study) continue to prefer breakfast cereal as their breakfast of choice. Whereas in the United States, with its on-the-go snack culture, breakfast cereal is often feeling the pinch of accelerated lifestyles that seldom have time left for more leisurely meals.
- Analysts also indicate that healthier sugar-reduced varieties, especially those with mix of fruits and nuts, in addition to organic products, are experiencing the fastest growth.

GRAPH 5 – U.S. EXPORTS OF BREAKFAST CEREAL TO CANADA



Forecast: FAS.

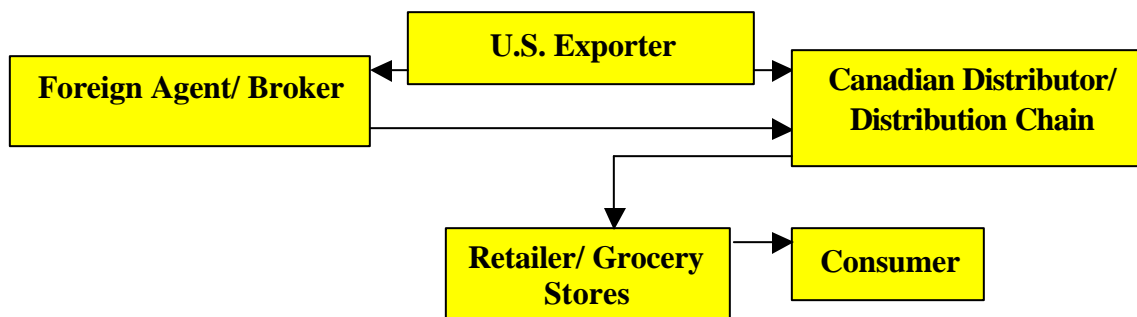
Source: Global Trade Atlas.

According to analysts, Canada's aging population and an increased focus on healthier lifestyles are likely to have a positive impact on sales of breakfast cereals. There is burgeoning market demand for health-oriented cereals.

Exporter Marketing Channels – Canada

Exporters entering this market must use a distributor or a foreign buyer/broker who will deal with the retailer. The retail sector in Canada normally obtains the bulk of its product from a handful of key distributors (see graph 5A, next page).

GRAPH 5A – EXPORTER MARKETING CHANNELS – CANADA



Source: USDA – FAS and Canadian Association of Importers and Exporters.

While U.S. breakfast cereals enter the Canadian market with no tariff, there is a 7 percent goods and services tax assessed on FOB value, as well as additional taxes in each province that adds between 7 and 17 percent (for help with up-to-date tariff and tax information, see Appendix B).

Mexico

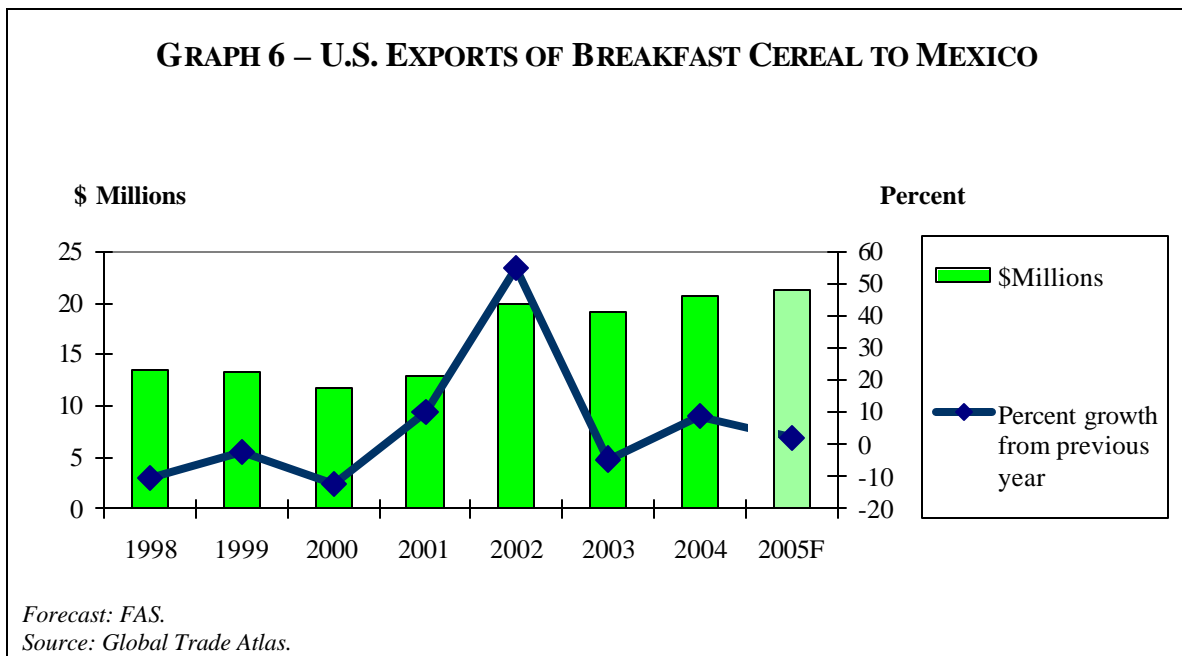
U.S. exports of breakfast cereal to Mexico reached almost \$21 million in 2004, increasing by value nearly 53 percent in 2004 compared to 1998 figures. Graph 6 on the next page illustrates the upward demand trend and forecasts approximately again about \$21 million in exports in 2005.

Mexico remains strongly influenced by U.S. trends. Breakfast cereal growth has been driven in part by the marketing efforts of the major manufacturers, who have gone so far as to co-brand products with national banks and automotive firms. Industry sources indicate that manufacturers have also spurred growth through the introduction of new products, especially within the children's segment.

In recent years the Mexican breakfast cereal sector has experienced intense price competition among supermarkets. Industry analysts point out that it is increasingly impossible to purchase a product at the "recommended" retail price. To compensate for this as well as to entice consumers, some brands actively give away extra volume free and offer lower prices for larger packs.

Analysts and traders alike clarify that opportunities exist for meeting demands of young consumers, whose taste for sugared breakfast cereals range from chocolate to honey

varieties. Packaging designed with these consumers in mind – for example, flashy cartoon characters and action heroes – are as important as the product.



According to various industry sources, influencing children's and young consumers' demand is the significant influence exerted by movies and television programs and the increasing purchasing power of smaller Mexican families.

For example, breakfast cereal manufacturers often focus on the interests of children by frequently updating character licensing – particularly popular at the moment are *Disney* characters from *Shrek* and the *Lion King* as well as action heroes like *Spiderman*. Children also largely drive impulse buying decisions since they often accompany their mothers during shopping trips.

The purchasing power of smaller Mexican families has increased as the Mexican urban population has grown and overall family size has contracted. Manufacturers are capitalizing on this trend by marketing their products to the time-harried homemaker of the two-income family who does not have the time to prepare a traditional hot breakfast. The addition of fruit to cold cereals high in sugar reassures parents of the wholesomeness of the product while still allowing the cereal to be fun to eat for children.

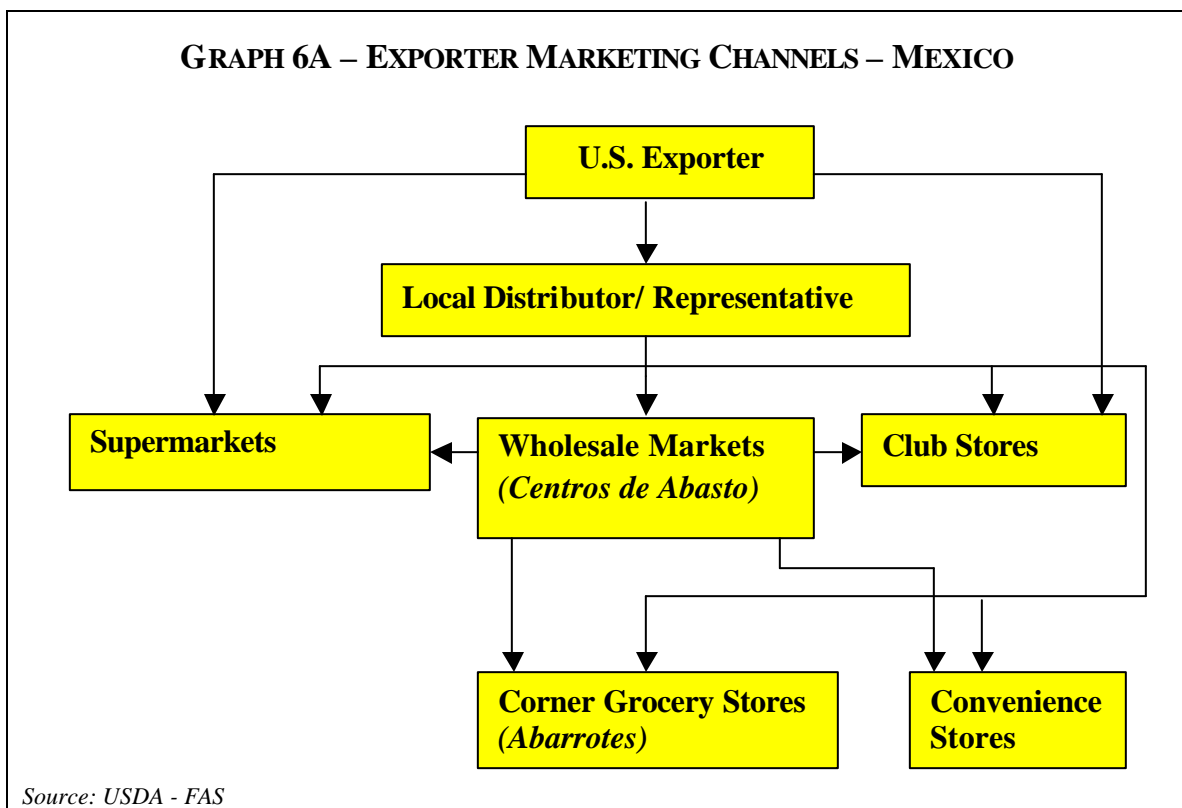
Exporter Marketing Channels – Mexico

Mexico's distribution channels have improved greatly since NAFTA implementation (see graph 6A, next page). Though some trade analysts have indicated that Mexico's

distribution channels suffer from a weak infrastructure that may create back-ups at the border, the latter is normally attributable to exporters not having documents in order.

The market's full potential is stymied by the presence of informal retail channels. A significant amount of the retail trade continues to be carried out by sidewalk vendors and other informal means.

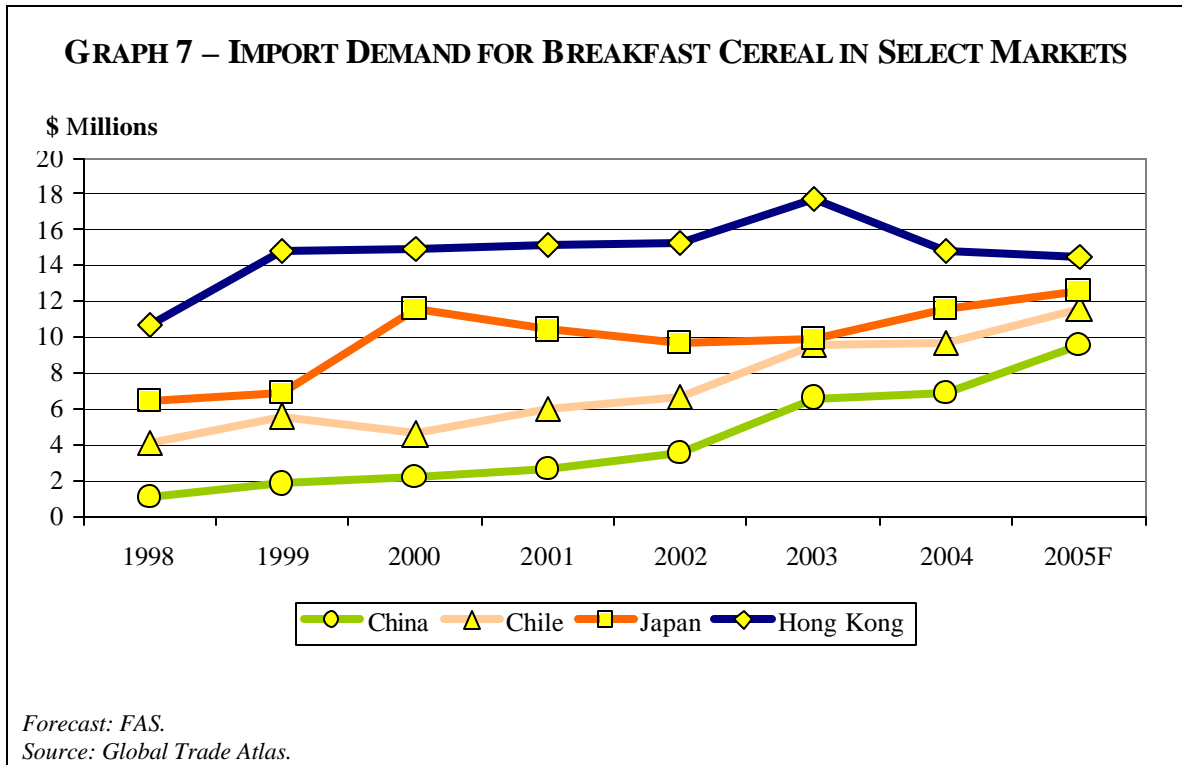
Notwithstanding such caveats, Mexican consumers have developed a marked preference for many American products – especially as personal income rises. FAS Mexico City reports that increasingly the trend for the Mexican market is for breakfast cereal manufacturers to open more cereal factories in Mexico to meet growing local demand.



Currently U.S. origin breakfast cereal enters Mexico at zero custom duty (for help with up-to-date tariff and tax information, see Appendix B).

DESTINATIONS TO WATCH

In the short-term, import demand developments in the following select markets could be of interest to U.S. exporters: China, Hong Kong, Chile, and Japan.



China

China (excluding Hong Kong) imported \$6.9 million of U.S. breakfast cereals in 2004 and the forecast of \$9.6 million in 2005 offers potential in the future. For now, demand is limited by lack of product marketing, visibility, and high prices. Opportunities do exist in the more cosmopolitan cities. Analysts indicate that exporters should focus on foreign-owned retail markets and target children who are tomorrow's consumers.

FAS Shanghai reports that though boxed dry breakfast cereals are still viewed as being overly sweet by Chinese consumers accustomed to hot, salty breakfast foods, cold cereals are increasingly popular as a time-saver. Breakfast cereals are gaining ground especially among younger, affluent consumers in cities such as Shanghai and Guangzhou who favor U.S. breakfast cereal as they strive to emulate their peers in Hong Kong and in the West.

Another barrier to acceptance of breakfast cereal is distribution. Shanghai and Guangzhou are the only cities with distribution umbrellas that take in a significant number of neighboring cities. Beyond this, product is likely to change hands several

times before reaching the retailer, let alone the customer – this worsens the further inland product travels.

An additional barrier that must be dealt with when dealing with China pertains to packaging. Supermarket operators often complain about consumers tearing open packages to inspect the product inside. FAS Shanghai indicates that product marketability may improve by packaging products in boxes with transparent windows so that consumers can see what they are buying.

HRI importers have indicated that it is often difficult to source U.S. product in food service size packages and that product must be formulated to handle extremely humid climates.

Tariffs on U.S. breakfast cereal range from 0 percent to 30 percent. A VAT of 17-19 percent of the CIF value, plus duty, and a consumption tax is also levied.

Hong Kong

Hong Kong, with \$14.8 million in imports in 2004 and forecasted to reach \$14.5 million in 2005, has significantly different tastes, distribution systems, business culture, and language that differs from other parts of China.

Hong Kong has experienced increased growth driven by healthy lifestyle concerns. American-style breakfast cereals are viewed as a healthy low-calorie alternative to traditional deep-fried breakfast meals. Both traditional flake type cereals and unusual taste are accepted as is apparent with *Quaker Food's* success with its chicken- and fish-flavored hot cereals. Consumers are sensitive to high prices and known for their lack of brand loyalty and changing demands for new tastes. There are no import duties on breakfast cereals.

Distributing product in Hong Kong is usually less complex than with the rest of Asia. Normally the U.S. exporter's product will only have to traverse two layers of distribution before reaching the consumer.

Chile

Chile, with \$9.7 million in global imports in 2004 and forecasted to import upwards of \$11.6 million in 2005, is showing strong indications of becoming an increasingly important export destination for breakfast cereals. FAS Santiago reports that approximately 40 percent of the national population is located in Santiago where nearly half a million consumers have the economic ability to purchase imported high-value food items. Outside of the capital, breakfast cereals are not a common item of consumption.

The U.S. – Chile Free Trade Agreement (FTA) signed on December 30, 2003, should drive up demand for U.S. origin breakfast cereals as tariff barriers are reduced, making them more competitive vis-à-vis neighboring Argentina's exports. U.S. exports hold 15 percent of Chile's import market.

- While U.S. breakfast cereals enter Chile tariff-free, a VAT of 19 percent of the CIF value is levied.
- Chile's demand for imported breakfast cereal products has been spectacular in recent years, growing by over 136 percent from \$4.1 million in 1998 to \$9.7 million in 2004.
- Consumption has taken off from almost a non-existent level a decade ago.
- Chilean private label competition drives down prices.
- Products must be sampled and tested prior to obtaining import approval. Recommended daily intake levels for added vitamins and minerals are different from those of the United States. This may impede the approval of some fortified cereals for import.

Trade sources suggest that exporters tap into consumer health needs (e.g. healthy, low fat, low sugar), especially by tailoring products to parents' concerns with children getting their daily-recommended intake of vitamins and minerals.

Japan

Demand for imported foreign breakfast cereals in Japan (\$11.6 million in 2004 and forecasted at \$12.6 million in 2005) will be driven by increased demand for product that is marketed as nutritious and healthy. Corn flakes sell well, but the opportunity exists to diversify into soybean-flavored products that consumers favor. Hot cereals have not done well in recent years in this market.

FAS Tokyo reports that though they have yet to observe a strong trend toward specific soybean-flavored products, mixed products like granola that often include soy derivative are gaining popularity. Young female consumers, especially young mothers, are increasing their intake of fruit granola-type cereals featuring health and dietary characteristics. This category is not as price sensitive as corn flakes and puffed rice.

Short-term increased demand for U.S. imports may be linked to a weakened U.S. dollar vis-à-vis the yen. In the long run, improved demand will likely hinge on U.S. processed food imports gaining increased consumer perception of product quality, given that the Japanese media routinely promotes local manufactures by questioning the quality of food imports.

Industry sources indicate that the nutritional needs of Japan's growing elderly population are spurring product formulation. Nevertheless, more youthful consumers remain highly receptive to American culture and by extension may be more inclined to emulate American dietary habits than is the case with older consumers.

With female consumers driving Japanese retail trends, demand for more sophisticated cereal products featuring health/ nutrition is growing. Smaller, easy-to-use packaging that can be resealed is also becoming an important purchase determinant.

Japanese traders are interested in importing organic cereal products, including corn flakes and other mixed products, in smaller packages. FAS Tokyo reports that organic breakfast cereals, including a number of U.S. brands, are already being sold in Japan's upscale supermarkets. Most traders supplying cereal manufacturers continue to request non-biotech corn products.

- As Japan's economy recovers, demand for U.S. breakfast cereals will improve.
- Competition for market share is fierce, leading firms to engage in price-cutting to maintain market share.
- Breakfast cereal tariffs on U.S. products range from 11.5 to 25 percent of CIF value. Consumption taxes are also applied.
- Major competitors are Japanese manufacturers and European exporters.

CONCLUSIONS AND OUTLOOK

The global market for breakfast cereals was \$1.9 billion in 2004 and is forecasted to reach \$2.2 billion this year. Convenience and concerns about healthy eating are driving demand in most markets.

The North American market will remain for the foreseeable future the world's largest consumer of ready-to-eat breakfast cereal products. Demand in this market is strongly influenced by convenience, children, and adult premium requirements. Similarly demand will also remain strong in the United Kingdom where a well-established culture of breakfast cereal consumption continues to underpin sales. Expect sales in Latin America, especially within the Mexican market, to grow as urbanization increases and the middle class expands - consumers' lifestyles will become more hurried and consequently more receptive to convenience foods such as breakfast cereals.

Best U.S. export markets in 2003 are Canada (\$141 million) and Mexico (\$19 million), and will remain so for the foreseeable future. These two destinations show steady rising demand for U.S. breakfast cereals. Consumer familiarity with U.S. breakfast cereals in Canada and Mexico will facilitate new opportunities.

As the trend both at home and abroad focused on tapping into the on-the-go culture expands, U.S. manufacturers and exporters that can market their products as nutritious, wholesome, and fun-to-eat (for both children and ageing baby boomers), stand to win over consumers in niche markets in many countries.

The industry as a whole is moving toward greater emphasis on product innovation and promotion linked to increased consumer demand for healthy and nutritious products. This is leading to increased acceptance and appreciation for higher-priced, health-oriented breakfast cereal products that are both attractively and conveniently packaged.

APPENDIX A: HS CODES FOR BREAKFAST CEREAL

HS CODE	DESCRIPTION
1904	Prepared foods obtained by the swelling or roasting of cereals or cereal products (for example, cornflakes); cereals (other than corn/ maize) in grain form or in the form of flakes or other worked grains (except flour, groats, and meal), pre-cooked or otherwise prepared, not elsewhere specified or included.
190410	Prepared foods obtained by the swelling roasting of cereals or cereal products.
1904100040	Containing cane and/or beet sugar..... kg
1904100080	Otherkg
190420	Prepared foods obtained from un-roasted cereal flakes or from mixtures of un-roasted cereal flakes and roasted cereal flakes or swelled cereals.kg
190490	Other:
1904900120	Frozen.....kg
1904900140	Other.....kg

APPENDIX B: USEFUL WEB SITES

CANADA – THE BUSINESS LINK

http://www.cbsc.org/alberta/search/display.cfm?Code=1122&coll=FE_FEDSBIS_E

EU – TARIFFS & CUSTOMS

http://europa.eu.int/comm/taxation_customs/dds/en/tarhome.htm

U.S. DEPARTMENT OF COMMERCE – TRADE INFORMATION CENTER

TARIFF AND TAX INFORMATION: COUNTRY AND REGIONAL TARIFF AND TAX RESOURCES

http://www.ita.doc.gov/td/tic/tariff/country_tariff_info.htm

USDA – FOREIGN AGRICULTURAL SERVICE

<http://www.fas.usda.gov/>

U.S. TRADE EXPORTS – BICO COMMODITY AGGREGATIONS

<http://www.fas.usda.gov/ustrade/USTExBICO.asp?QI=>

U.S. MISSION TO THE EUROPEAN UNION

<http://www.useu.be/agri/usda.html>